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5

OIL, GAS AND MINERAL LEASE

STATE OF TEXAS §  
§  
COUNTY OF TARRANT §

THIS OIL, GAS AND MINERAL LEASE (this "Lease") is made effective as of the 12<sup>th</sup> day of June, 2008, between the undersigned person(s), whose name(s) and address appear on the signature page attached hereto as lessor (hereafter collectively called "Lessor", whether one or more), and GLENCREST RESOURCES, LLC, a Texas limited liability company (hereafter called "Lessee"), whose address is 2016 Evans Avenue, Fort Worth, Texas 76104.

1. **Grant.** For good and valuable consideration in hand paid, including services heretofore provided by Lessee and its promises and agreements contained herein, Lessor does hereby GRANT, LEASE, LET and DEMISE unto Lessee exclusively, for the purpose of investigating, exploring, prospecting, drilling and mining for, and producing oil, gas and all other minerals, all of the interests of Lessor in the following-described lands (the "Land"), to produce, save, take care of, treat, transport, and own said products located thereon or therein, and to inject gas, water and other fluids, and air into subsurface strata therein, said Land being legally described as:

Lot 4B, Block 7, Masonic Home #2 Addn,  
City of Watauga shown on the Plat recorded  
at Volume 388-3, Page 281, Plat Records, Tarrant County, Tx

2. **Primary Term.** Subject to the further provisions hereof, this Lease shall be in force for a term of five (5) years from the date hereof (the "Primary Term"), and shall continue in force for so long thereafter as oil, gas or other minerals are produced in paying quantities from the Land or lands pooled with the Land or a portion thereof.

3. **Royalty.** The royalties to be paid Lessor are:

(a) 25% of all oil (including distillate or condensate and other liquid hydrocarbons) produced and saved from the Land, the same to be delivered at Lessee's option to Lessor at the wellhead or to the credit of Lessor into the pipeline to which the well or wells may be connected, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity;

(b) 25% of the gross proceeds received by Lessee or any affiliated person or entity, directly or indirectly, upon the first sale of gas, including casinghead gas or other gaseous substances, produced from the Land, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and

(c) 25% of the market value, free of any processing cost, of such minerals other than oil, gas, and other liquid and gaseous hydrocarbons that may be produced from the Land.

4. **Shut-in Royalty.** If while there is a gas well on this Lease capable of producing in paying quantities, but gas is not being sold for a period of ninety (90) consecutive days, Lessee shall pay or tender in advance a shut-in royalty in an amount equal to a \$50.00 annual royalty per net mineral acre, with such shut-in royalty payment to be made no later than thirty (30) days following said 90-day period and thereafter at annual intervals while gas is not being sold. While such shut-in royalty payments are timely and properly paid, this Lease shall be held as a producing lease. The payment or tender of royalty under this paragraph may be made by the check of Lessee mailed or delivered to the parties entitled thereto.

5. **Surface Use Prohibition; Subsurface Easement.** The grant and lease hereunder conveys no right to Lessee or Lessee's successors and assigns to utilize the surface of the Land for any purpose. Subject to the foregoing, and for the same considerations herein expressed, Lessor hereby grants exclusively unto Lessee and its successors and assigns such rights-of-way, easements, and servitudes in and through the subsurface of the Land, at depths of not less than two hundred feet (200') beneath the surface, as Lessee or its successors and assigns may from time to time desire for drilling well boreholes from surface locations not located on the Land and for casing and otherwise completing, maintaining, operating and producing such wells and using the same for producing from a

well or wells located on another tract or tracts, whether or not unitized with the Land, such rights-of-way, easements, and servitudes to continue for the duration of the Lease and thereafter as hereinafter provided. If Lessee shall assign to any third party or parties rights granted to Lessee under this paragraph, the rights of Lessee shall not thereby be diminished, but in such event both Lessee and its assignee shall have, hold, and enjoy said rights each independently of the other. The rights of Lessee and of each assignee of Lessee under this paragraph shall continue after the expiration, surrender, forfeiture, or other termination of the Lease for a period of twenty (20) years from the date of the Lease and so long thereafter as oil, gas or other hydrocarbon substances are produced by means of any such well and so long thereafter as drilling, re-drilling, remedial or secondary recovery operations are being conducted with respect to any such well, whichever period is the longer. During the term of the Lease, Lessor shall not grant any rights of way, easements or servitudes in and to the Land with respect to the drilling for or the production of oil, gas and other hydrocarbon substances to any other person, firm or corporation without the prior written consent of Lessee.

6. **Operations.** For the purposes of this Lease, the term "operations" as utilized herein means activities related to any well or wells situated on tracts pooled or unitized with the Land, and shall include, but not be limited to, access and site preparation, drilling, re-drilling, setting casing, perforating, artificially stimulating, deepening, plugging back, testing, re-testing, completing, re-completing, re-entering, working-over, re-working, equipping, re-equipping, operating, repairing the well or its production equipment, replacing production equipment, and any like or similar operations performed by Lessee, or caused to be performed by Lessee, its successors and assigns, in search for or in an endeavor to obtain production of oil, gas and other minerals, and the production of oil, gas, or other minerals, whether or not in paying quantities.

7. **Regulation and Delay.** Lessee's obligations under this Lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. Lessor hereby agrees that, in the event Lessee deems it necessary to seek a variance, waiver or other relief from any laws, rules, regulations, or orders (which for purposes of this paragraph shall include any ordinance) or other such authority exercised by (i) the city or other municipality with jurisdiction over the Land or this Lease, including but not limited to the well setback distance for gas drilling and production, or (ii) any other governmental or quasi-governmental entity or authority having jurisdiction affecting the Lease or the parties hereto, then Lessor shall engage in such reasonable acts and execute and deliver such instruments and documents Lessee deems necessary or convenient in seeking such relief. In the event Lessee is required by such authority to acquire Lessor's consent as a prerequisite to obtain such variance, waiver or other relief, Lessor hereby grants to Lessee, and agrees that Lessee's leasehold estate acquired hereunder includes, the right to utilize this Lease as Lessor's consent and ratification of any subsequent variance, waiver or other relief Lessee seeks, without the necessity of Lessee obtaining any additional or subsequent consent(s) from Lessor. Lessor furthermore agrees not to execute documents or instruments or engage in acts that would or may diminish or adversely affect the relief Lessee is seeking. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, the Lease shall not terminate because of such prevention or delay, and, at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any provisions or implied covenants of the Lease when drilling, completion, production or other operations are so prevented or delayed.

8. **Representations and Warranties.** This Lease is executed by Lessor without any representations or implied warranties of title, or otherwise, except as expressly set forth herein. Lessor hereby represents and warrants unto Lessee that, Lessor has not heretofore granted, executed or entered into any other lease, top lease, or other instrument or agreement of any kind whatsoever concerning or affecting the mineral estate underlying the Land, and acknowledges that Lessee is relying on this representation in electing to accept this Lease. If Lessor owns an interest in the Land less than the entire fee simple estate, then the royalties and bonus payable hereunder shall be reduced proportionately. Lessor agrees that Lessee, at its option, may discharge any past-due or delinquent tax, mortgage or other lien upon the Land, either in whole or in part, and in the event Lessee does so, Lessee shall be subrogated to such lien to the extent of such payment, with the right to enforce said lien and with the right to apply royalties accruing hereunder toward satisfying the indebtedness such lien secures.

9. **Notices.** All notices shall be deemed given and reports shall be deemed delivered if sent by certified letter, properly addressed and deposited in the United States mail, postage prepaid, to Lessor at the addresses shown on the signature pages and to Lessee at the address shown above, or such new address as may be furnished by written notice to Lessor hereunder.

10. **Indemnity.** LESSEE AGREES TO INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S REPRESENTATIVES, SUCCESSORS, AND ASSIGNS AGAINST ALL EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, INCLUDING, WITHOUT LIMITATION, ATTORNEYS' FEES, EXPERT FEES, AND COURT COSTS, CAUSED BY LESSEE'S OPERATIONS ON THE LAND OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS BY LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, CONTRACTORS, AND ANY OTHER PERSON ACTING UNDER ITS DIRECTION AND CONTROL, AND ITS INDEPENDENT CONTRACTORS.

11. **Lessee's Right to Terminate.** Lessee may at any time and from time to time execute and deliver to Lessor or file for record a release or releases of this Lease as to any part or all of the Land or of any mineral or horizon thereunder, and thereby be relieved of all obligations hereunder as to the released acreage or interest.

12. **Rework; Dry Hole.** If at the expiration of the Primary Term of this Lease, oil, gas, or other minerals are not being produced from the Land or lands pooled with the Land or a portion thereof, but Lessee is then engaged in drilling or reworking operations, this Lease shall remain in force so long as drilling or reworking operations are prosecuted (whether on the same or different wells) with no cessation of more than sixty (60) consecutive days, and if they result in production, so long thereafter as oil, gas, or other minerals are produced from the Land or lands pooled with the Land or a portion thereof. If production of oil, gas, or other minerals on the Land or lands pooled with the Land or a portion thereof should cease from any cause after the Primary Term, this Lease nevertheless shall continue in full force and effect as long as additional drilling operations or reworking operations are conducted on the Land or lands pooled with the Land or a portion thereof, which additional operations shall be deemed to be had when not more than sixty (60) days elapse between the abandonment of operations on one well and the commencement of operations on another well and, if production is obtained, this Lease shall continue as long as oil, gas, or other minerals are produced from the Land or lands pooled with the Land or a portion thereof, and as long thereafter as additional operations, either drilling or reworking, are had on the Land or pooled lands in accordance with this provision. In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent land and within 330 feet of and draining the leased premises, Lessee agrees to drill offset wells as a reasonably prudent operator would drill under the same or similar circumstances. The judgment of the Lessee, when not fraudulently exercised, in carrying out the purpose of this Lease shall be conclusive.

13. **Pooling.** Lessee, its successors and assigns, at its option, at any time and from time to time, and without Lessor's joinder or further consent, is given the right and power to pool all or any part of the Land or any interests covered by this Lease, as to oil, gas, condensate or distillate, or any of them, or either of them, with any other land, interests, lease or leases, or any of them, adjacent to, adjoining, or located in the immediate vicinity of the Land, when in Lessee's judgment it is necessary or advisable to do so in order to efficiently develop or operate the Land in compliance with the spacing rules of the Railroad Commission of Texas or other lawful authority, or when to do so would, in the judgment of Lessee, promote the conservation of oil and gas on the Land, the pooling to be into a well unit or units not exceeding forty (40) acres for oil plus an acreage tolerance of ten percent (10%), and not exceeding six-hundred-forty (640) acres for gas plus an acreage tolerance of ten percent (10%), subject to the following sentence regarding horizontal wells, however, and further provided that should the governmental authority having jurisdiction prescribe or permit the creation of units larger than those specified, units may be created or enlarged to conform substantially in size with those prescribed or permitted by governmental regulations. Notwithstanding anything to the contrary stated herein, a unit for a horizontal well may include (i) the amount of acreage allowed for obtaining a permit to drill a well under the spacing and density provisions in the applicable field or statewide rules for a vertical well-bore, plus the additional acreage listed in the tables in Rule 86 for the length of lateral actually utilized by Lessee, or (ii) the amount of acreage allowed for obtaining a full production allowable under the applicable field or statewide rules for a vertical well-bore, plus the additional acreage listed in the tables in Rule 86 for the length of lateral actually utilized by Lessee. Lessee may pool all, and not less than all, of the Land or interests described above, provided that, as to oil or gas in any one or more strata, any units formed need not conform in size or area with the unit or units into which the Lease is pooled or combined as to any other stratum or strata, and oil units need not conform as to area with gas units. The pooling in one or more instances shall not exhaust the rights of the Lessee to pool the Land, or any portion of the Land, into other units. Lessee shall execute in writing and file for record in the county or counties where the Land is situated an instrument designating and describing the pooled acreage, which pooling and designation may be accomplished either before or after a well or wells are drilled or completed on the unit. The entire acreage so pooled into a unit shall be treated for all purposes, except the payment of royalties, overriding royalties or payments out of production, as if it were included in this Lease; and drilling or reworking operations, production of oil or gas, condensate or distillate, cessation of production, or the existence of a shut-in gas well, shall be considered for all purposes, except the payment of royalties, as if the operations were conducted, or the production or cessation of production or existence of a shut-in gas well were on the Land, whether or not the well or wells be located on the actual Land itself. In lieu of the royalties, overriding royalties or payment out of production, if any, specified in this Lease, Lessor shall receive from a unit only the portion of the royalty, overriding royalty or payment out of production, if any, as the amount of the surface acreage of the Land placed in the unit bears to the total surface acreage pooled in the particular unit involved. Shut-in gas royalties with respect to unit shut-in gas wells shall be payable in accordance with the provisions and in the amount set forth in this Lease. Should any unit created by the terms of this Lease contain less than the maximum number of acres specified or allowed, then Lessee may at any later time, whether before or after production is obtained on the unit, enlarge the unit by adding additional acreage, but the enlarged unit shall in no event exceed the acreage content specified or allowed. In the event an existing unit is enlarged, Lessee shall execute and file for record in the county or counties in which the Land is located a supplemental designation and description of the land added to the existing unit; provided, that if the supplemental designation and description is not filed until production is obtained on the unit as originally created, then and in that event the supplemental designation and description shall not become effective until the first day of the calendar month next following the filing. At any time, for any reason, or in the event the well or wells drilled on any unit shall fail to produce oil or gas, or in the event the production from any well or wells shall cease, Lessee may terminate any unitized area. A termination may be accomplished by filing for record in the county or counties where the lands are located proper instruments evidencing that termination.

14. **Assignment.** The rights of either Lessor or Lessee may be assigned in whole or in part, and the provisions of this Lease shall extend to the heirs, executors, administrators, successors, and assigns of the Lessor and Lessee, but no change or division in ownership of the Land or royalties, however accomplished, shall operate to enlarge the obligations or diminish the rights of Lessee or impair the effectiveness of any payment previously made by Lessee. No change or division in the ownership of the Land or royalties shall impair the effectiveness of any payment previously made by Lessee or be binding on Lessee for any purpose (and irrespective of whether Lessee

has either actual or constructive knowledge) until sixty (60) days after the person acquiring any interest has furnished Lessee with the instrument or instruments or certified copies of them, constituting the person's chain of title from the original Lessor. In the event of an assignment hereof in whole or in part, liability for the breach of any obligation hereunder shall rest exclusively upon the owner of this Lease or portion thereof who commits such breach. In the event of the death of any person entitled to royalties hereunder, Lessee may pay or tender such royalties to the credit of the deceased or the estate of the deceased until such time as Lessee is furnished with proper evidence of the appointment and qualification of an executor or administrator of the estate, or if there is none, then until Lessee is furnished with evidence satisfactory to it as to the heirs or devisees of the deceased and that all debts of the estate have been paid. If at any time two or more persons become entitled to participate in the royalties payable hereunder, Lessee may pay or tender said royalty jointly to such persons or, at Lessee's option, the proportionate portion of said royalty to which each participant is entitled may be paid or tendered to him or her separately, and payment or tender to any participant of his or her portion shall maintain this Lease as to such participant.

15. **Breach.** In the event that Lessor considers that operations are not at any time being conducted in compliance with this Lease, Lessor shall notify Lessee in writing of the facts relied upon as constituting a breach hereof, and Lessee, if in default, shall have sixty (60) days after receipt of such notice in which to commence compliance with the obligations imposed. After the discovery of oil, gas or other minerals in paying quantities on the Land or lands pooled with the Land or a portion thereof, Lessee shall develop the acreage retained hereunder as a reasonably prudent operator but in discharging this obligation it shall in no event be required to drill more than one well per forty (40) acres of the area retained hereunder and capable of producing oil in paying quantities and one well per 640 acres, plus an acreage tolerance not to exceed ten percent (10%), of the area retained hereunder and capable of producing gas or other minerals in paying quantities.

16. **Memorandum.** This Lease or a memorandum hereof may be recorded by Lessee in the official property records of the county or counties in which the Land is situated.

17. **Option.** Lessor, for itself and its successors and assigns, hereby grants Lessee an option to extend the Primary Term of this Lease for an additional five (5) years from the end of the Primary Term, which may be exercised by paying or tendering to Lessor, prior to the end of the Primary Term, an amount equal to the bonus consideration given for this Lease. If such option is exercised, this Lease shall continue for the additional period on the same terms and conditions then applicable to the Lease.

18. **Miscellaneous Provisions.**

(a) In the event this Lease expires for any reason as to all or any part of the Land, Lessee shall upon request furnish Lessor with a written, recordable release covering all of the Land or that portion of the Land to be released.

(b) Nothing in this Lease negates the usual implied covenants imposed upon Lessee.

(c) Paragraph headings are used in this Lease for convenience only and are not to be considered in the interpretation or construction of this Lease. The execution or ratification by Lessor of any division order, gas contract, or any other document will not alter any provision of this Lease unless the intent to do so is expressly stated in the document.

(d) This Lease is binding upon and for the benefit of Lessor, Lessee, and their respective heirs, personal representatives, successors, and assigns.

(e) At all times while this Lease is in force, Lessee shall acquire and maintain insurance covering all of its operations on the Land, including any work performed on its behalf by contractors, subcontractors, and others. The policies shall include coverage for comprehensive general liability, for bodily injury and property damage, blowout and loss of well coverage, and coverage for any damage to the environment, including coverage for the cost of clean-up and surface remediation. The coverage shall be in not less than a minimum amount of \$2,000,000.00

19. **Counterpart Execution.** Executed signature pages from different originals of this instrument may be combined to form a single original document for recording purposes. This document shall be binding upon any party executing same, and binding upon Lessee by its acceptance hereof.

LESSOR:

Signed: Francisco Canales  
Name: Francisco Canales

Signed: Gloria Canales  
Name: Gloria Canales

ADDRESS:

3420 Grayson St  
Fort Worth TX 76119

817-531-8765

STATE OF TEXAS

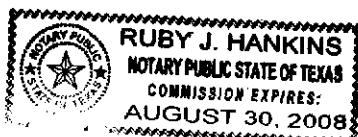
§

COUNTY OF TARRANT

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Before me, the undersigned authority, on this day personally appeared Francisco Canales and Gloria Canales, known to me to be the person(s) whose name(s) is/are subscribed to the foregoing instrument and acknowledged to me that he/she/they executed the same for the purposes and consideration therein expressed.

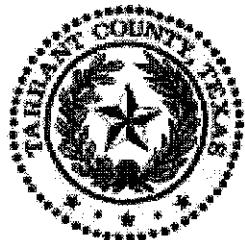
Given under my hand and seal of office this 12<sup>th</sup> day of June, 2008.



Ruby J. Hankins  
Notary Public, State of TX  
My Commission Expires: August 30, 2008  
(Notary Seal)

After recording, return to:

David Drumm, Esq.  
Carrington, Coleman, Sloman & Blumenthal, LLP  
901 Main Street, Suite 5500  
Dallas, TX 75202



CARRINGTON COLEMAN SLOMAN BLUMENTH  
901 MAIN 5500

DALLAS TX 75202

Submitter: GLENCREST RESOURCES LLC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

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**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 08/20/2008 10:37 AM

Instrument #: D208326640

LSE 6 PGS

\$32.00

By: \_\_\_\_\_



**D208326640**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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